



## GOP win fuels revival of Bush energy bill

**Bigger majorities in Congress have improved chance of long-stalled measure becoming law**

By **John W. Schoen**

Senior Producer

MSNBC

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After a contentious and unsuccessful three-year journey through Congress, the Bush administration's comprehensive energy bill has risen from the dead, thanks to a stronger Republican majority in the Senate, where the bill remains stalled. If approved, the measure would bring major changes for energy producers, investors and consumers.

The **1200-page measure** collapsed under its own weight earlier this year when the Senate balked at the \$31-billion price tag that included a grab bag of incentives for a variety of energy producers. While the bill promotes increased discovery and production of oil and natural gas, it also gives a boost to coal producers, overhauls the nation's power industry regulation and provides incentives for greater use of renewable fuels like wind and solar power.

"It's the culmination of six years of negotiations between the stakeholders in the House and Senate and the president," said Rep. Joe Barton, R-Tex., chairman of the House committee responsible for the shepherding the bill, which made it through a Senate conference committee but never came to a vote. Barton said he hopes to bring the bill for a vote before year-end.

That timetable may be optimistic, but the bill now stands a better chance of making it to the White House whenever Congress takes it up again. In addition to increased Republican clout on Capitol Hill, some of the most contentious issues that blocked passage have already been eliminated. Barton says a controversial measure to drill for oil and gas in the Alaska National Wildlife Refuge has been removed. And the recently enacted corporate tax bill, which President Bush signed last month, included several big money provisions to help the oil and gas industry that were originally contained in the energy bill.

But key compromises will likely still need to be made to overcome the political infighting that doomed the sweeping overhaul of energy policy. Among the biggest sticking point is an ongoing fight over the gasoline additive MTBE (Methyl Tertiary Butyl Ether). At issue is whether the petrochemical industry should be shielded from the burden of cleaning up the additive, which was originally produced to make gasoline burn cleaner but which has contaminated groundwater in at least 28 states. The cost has been estimated at \$30 billion or more; Barton said one compromise under consideration would set aside a fund to pay for cleanup.

"We've put various amendments on the table to try to move the bill," he said.

But it's not clear whether the shift to a 54-vote GOP majority in the Senate will be enough to break the deadlock.

"Energy politics are as much, if not more, regional in nature than partisan in nature," said Jason Grumet, executive director of the National Commission on Energy Policy. "Some of the strongest opposition to last year's energy bill came from Republicans in the Northeast who felt uncomfortable with the approaches to MTBE."

If the MTBE issue can be resolved, the last major obstacle to passage of the bill would be removed. Here are some of the highlights:

## Oil & gas

Many of the tax breaks for oil and natural gas producers have already been included in the corporate tax bill, including \$400 million in loan guarantees for the construction of an Alaskan gas pipeline. But the energy bill still contains additional provisions to help the oil and gas industry increase exploration and production.

One of the most controversial measures — opening up Alaskan wilderness lands to oil drilling — won't be included when Congress takes another crack at the bill, according to Barton. A Democratic spokesman for the Senate Energy Committee said last week that removing that provision eliminates a "huge boulder out of the road on the energy bill."

But in the short term, don't look for the bill to lower oil prices. In fact, some oil traders suggest the bill would further tighten supplies — putting upward pressure on prices — by expanding the **Strategic Petroleum Reserve** to 1 billion barrels from its current capacity of about 725 million barrels in underground storage sites in Texas and Louisiana. Taking those additional 275 million barrels off the market and pumping them back into the ground could tighten supplies further.

## Coal

To help reduce dependence on imported oil, the bill promotes greater use of coal, which is still abundant in the U.S. One major goal is to develop ways to burn coal more efficiently, with lower emissions of carbon, sulfur and other pollutants. To further that goal the bill offers grants to develop technologies for cleaner-burning coal and incentives for companies that use those technologies.

"The technology isn't ready for commercial rollout yet, but it's certainly something that folks both on the academic and commercial side say is viable," said John Quealy, an analyst at Adams Harkness.

The economics of burning coal would likely change if a separate Bush proposal, the **Clear Skies Act**, is approved. A centerpiece of that legislation is a so-called "cap and trade" provision that would allow power companies that don't meet pollution standards to buy "credits" from companies that exceed them. The idea is to reward owners of cleaner-burning plants and penalize owners of dirty plants.

That bill, which also stalled in Bush's first term, is expected to get a renewed push following in the new Congress. But the measure faces opposition from some environmental groups, which claim that **Clear Skies would increase emissions from existing level**.

## Electric Power

Another controversial provision in the energy bill is the repeal the 1935 Public Utility Holding Company Act, a complete overhaul of 70-year old power industry regulations. Among other things, the repeal would lift restrictions on the size and geographic reach of power companies, allow ownership by companies engaged in other businesses, and all but eliminate state-by-state electric utility regulation.

Proponents argue that establishing federal regulation is the first step to overhaul of the national power grid and establishment of a truly national power market. The measure is also designed to spur investment in power generation and distribution by, among other things, allowing mergers with larger companies.

The change is also designed to give consumers greater choice among power producers. But it's not clear that consumers would benefit from the change.

"It will make (the power grid) more reliable," said Bill O'Grady, an energy analyst at A.G. Edwards.

"It would ease some of the regional disparities, so some consumers would actually end up paying more. California consumers will probably pay less. But if they allow a lot of horizontal mergers, you could end up with four or five large power producers and no real competition."

### **Alternative energy**

With U.S. reliance on foreign oil growing every year and domestic supplies dwindling, the Bush administration is hoping to expand development of other energy sources. The energy bill provides incentives for expanding renewable energy sources with, among other things, grants for research and requirements that government-owned buildings increase use of renewable fuels.

With gasoline prices marching toward \$3 a gallon, Ford and GM are already rolling out hybrid gas-electric cars and trucks and investing in experimental hydrogen fuel cell vehicles.

"The Bush administration has been one of the biggest proponents of hydrogen and development of hydrogen technology," said Quealy. "We're still in the early innings here, no doubt," he said. "But clearly the appetite for certain hydrogen technologies, including fuel cells, is one that we think will stay throughout the next administration."

But the hoped for "Hydrogen Economy" that is touted by some as the ultimate solution to oil and gas dependence is still a long way off.

"Frankly even if we had the technology right now to supplant the current energy system with something new and sustainable that was cheap and wonderful, it would still take us several decades to do it because it's such a big enterprise," said Richard Smalley, a Rice University professor who won the 1996 Nobel prize in Chemistry and is working on next generation power production and transmission technologies. "Even if we get really intent about this, we'd be lucky to get those breakthroughs with the next 10 to 20 years."

### **Conservation**

Perhaps the most striking element of the bill is what's missing: there are few new provisions aimed at cutting demand.

"Conservation," with implications of sacrifice or diminished lifestyle, has become something of a dirty word among politicians and energy policy experts ever since [Vice President Dick Cheney clearly laid out the Republican philosophy in an April, 2001 speech](#).

"Conservation may be a sign of personal virtue," he said then, "but it is not a sufficient basis for a sound comprehensive energy policy."

Critics of the Bush energy plan note that conservation played a major role during the last big oil shock in the 1970s, when buildings and cars became more efficient after oil prices surged. When the Arab oil embargo first choked off supplies in 1973, for example, oil consumption dropped 5 percent over two years. In late 1978, when the Iranian revolution sharply cut oil supplies again, demand dropped 10 percent in five years. But the idea of cutting demand is a non-starter in the current political climate.

"The most obvious thing that needs to be done is demand restriction and the country has made it very clear they want no part of it, said O'Grady. "Republicans are not demand restrictors, they're supply providers. That's always been their policy, and they've been very consistent about that. If you want someone to restrict demand, you've got to elect Democrats."

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